

CITY OF BATTLE CREEK

INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
AUGUST 1, 2013 THROUGH JULY 31, 2014

Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Report on Applying Agreed-Upon Procedures	4 - 5
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 7 - 8
City Council Minutes	B 8
Certified Budget	C 8
Disbursements	D 9
Transfers	E 9
Payroll	F 9
Pre-numbered Receipts	G 10
Financial Reporting	H 10
Bank Reconciliations	I 10
Journal Entries	J 10
Official Depositories	K 11
Urban Renewal Annual Report	L 11
Separately Maintained Records	M 11
Utility Billing	N 11
Computer System	O 12
Business Transactions	P 12

City of Battle Creek

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lloyd Holmes	Mayor	January,2018
Stuart Kelley	Council Member	January 2016
Jill Wingert	Council Member	January 2016
Judy Schau	Council Member	January 2018
Todd Riessen	Council Member	January 2018
Myra Meek	Council Member	January 2018
Diane Lansink	City Clerk/Treasurer	Indefinite
Peter Goldsmith	Attorney	Indefinite

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

November 25, 2014

Lonnie G. Muxfeldt
Certified Public
Accountant

Harlan Office:

2309 B Chatburn Ave.
P.O. Box 551
Harlan, IA 51537-0551

Ph. (712) 755-3366
Fax (712) 755-3343

Avoca Office:

305 W. High Street
P.O. Box 609
Avoca, IA 51521-0609

Ph. (712) 343-2379
Fax (712) 343-5012

www.muxfeldt-cpa.com
firm@muxfeldt-cpa.com

Licensed In:

Iowa
Missouri

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of City Council:

I have performed an agreed-upon procedures engagement of the City of Battle Creek pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa legislature to provide certain minimum oversight of Iowa cities. Accordingly, I have applied certain tests and procedures to selected accounting records and related information of the City of Battle Creek for the period August 1, 2013 through July 31, 2014. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards. Issued by the Comptroller general of the United States.

The procedures I performed are summarized as follows:

1. I reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. I reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. I reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. I obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. I reviewed City funds for consistency with the City Finance Committee's (CFC) recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.

6. I reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
7. I reviewed and tested selected receipts for accurate accounting and consistency with the COA.
8. I reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
9. I reviewed transfers between funds for propriety, proper authorization and accurate accounting.
10. I reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
11. I reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, I identified various recommendations for the City. My recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

I was not engaged to and did not conduct an audit of the operations of the City of Battle Creek, the objective of which is the expression of opinions on financial statements. Accordingly, I do not express opinions on the City's financial statements. Had I performed additional procedures, or had I performed an audit of the City of Battle Creek, additional matters might have come to my attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Battle Creek and other parties to whom the City of Battle Creek may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Battle Creek during the course of my agreed-upon procedures. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



DETAILED RECOMMENDATIONS

CITY OF BATTLE CREEK

DETAILED RECOMMENDATIONS

FOR THE PERIOD AUGUST 1, 2013 THROUGH JULY 31, 2014

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:
- (1) Cash – handling, reconciling and recording.
 - (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (4) Payroll – recordkeeping, preparation and distribution.
 - (5) Financial reporting – preparing and reconciling.
 - (6) Journal entries – preparing and journalizing.
 - (7) Accounting System – performing all general accounting functions including journal entries and having custody of assets.
 - (8) Computer system – performing all general accounting functions and controlling all data input and output.
 - (9) Investing – recordkeeping, investing, custody of investments and reconciling earnings,
 - (10) Debt – recordkeeping, compliance and debt payments.

For the City's Ambulance Service, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

CITY OF BATTLE CREEK

DETAILED RECOMMENDATIONS

FOR THE PERIOD AUGUST 1, 2013 THROUGH JULY 31, 2014

(A) Segregation of Duties, (continued)

Recommendation – I realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations and journal entries should be evidenced by the signature or initials of the reviewer and the date of the review.

(B) City Council Minutes – Chapter 372.13 (6) of the Code of Iowa requires that the minutes of all City Council proceedings be published within fifteen days of the meeting and include a summary of total receipts received by each fund, a summary of total disbursements from each fund, a summary of ordinances or amendments adopted and annual individual gross salaries are published as required. Although the minutes were published within fifteen days, none of the minutes tested included total disbursements summaries by fund. There were three instances found during testing where resolutions were passed with one or more Council members absent.

Recommendation – The City should comply with the Code of Iowa and publish minutes that include a summary of disbursements by fund. The city should comply with Chapter 380.4 of the Code of Iowa and refrain from voting on ordinances, amendments and resolutions unless all seats of the council are present at such meeting. The City should consult legal counsel as to the validity of resolutions and ordinances passed without proper representation of all Council seats.

(C) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in public safety, public works, culture and recreation, community and economic development, general government, debt service, business type and transfers. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

CITY OF BATTLE CREEK

DETAILED RECOMMENDATIONS

FOR THE PERIOD AUGUST 1, 2013 THROUGH JULY 31, 2014

- (D) Disbursement – It was noted during testing that disbursements were issued prior to City Council approval. Also, when multiple invoices were paid on one disbursement, the top invoice was defaced but corresponding invoices included in the disbursement were not defaced or marked “paid”.

Recommendation – All disbursements should be approved for payment by the City Council before issuance. Council Resolution 02-03-08 give the City Clerk authorization to pay claims before Council approval if penalties or interest will be charged by holding invoices until the next council meeting. Issuance of all disbursements before council approval is not allowed. Disbursements should be approved by the City Council before issuance. Also, all disbursements with multiple invoices should have each invoice defaced or marked “paid” to avoid possible payment of the invoice twice.

- (E) Transfers – An Emergency Fund transfer was between funds was not approved by the City Council.

Recommendation – The City Council should approve all inter fund transfers prior to the actual transfer and document the approval and amounts as part of the Council minutes.

- (F) Payroll – Although time sheets are maintained for employees, there is no indication that the time sheets have been reviewed or approved by appropriate supervisory personnel prior to payment. In addition, annual salary increases were approved by the City Council but were based upon a percentage increase and the actual amount of approved wages were not documented.

Recommendation – Appropriate supervisory personnel should review and approve all employee hours before payroll checks are issued. In addition, annual salary increases were approved by the City Council but were based upon a percentage increase and the actual amount of approved wages were not documented.

CITY OF BATTLE CREEK
DETAILED RECOMMENDATIONS
FOR THE PERIOD AUGUST 1, 2013 THROUGH JULY 31, 2014

- (G) Pre-numbered Receipts – Pre-numbered receipts were not issued for all collections.

Recommendation -- The City should establish a protocol for using pre-numbered receipts for collections of City funds.

- (H) Financial Reporting – The total fund balance on the June 30, 2014 Annual Financial Report did not balance with the City's balance sheet by \$534, which was interest earned on the Library certificate of deposits.

Recommendation – The City should implement procedures to ensure financial transactions are properly recorded a timely basis.

- (I) Bank Reconciliations – The cash and investments balances in the City's general ledger were not reconciled to the bank and investment accounts balances monthly. Although the cash balances in the city's general ledger were reconciled monthly, there was no independent review of the bank reconciliations.

Recommendation – The City should establish procedures to ensure bank and investments account balances are reconciled to the general ledger monthly and an independent person should review the reconciliations and document the review by signing or initialing the reconciliation.

- (J) Journal Entries – Journal entries are not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve all journal entries. Approval should be documented by signing or initialing and dating the journal entries.

CITY OF BATTLE CREEK

DETAILED RECOMMENDATIONS

FOR THE PERIOD AUGUST 1, 2013 THROUGH JULY 31, 2014

- (K) Official Depositories – A resolution naming official depositories has not been adopted by the City Council as required by chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

- (L) Urban Renewal Annual Report – The AURR report was not approved by the City Council before submission of the report.

Recommendation – The City council should approve the AURR report prior to submitting the report.

- (M) Separately Maintained Records – The City Ambulance service maintains separate accounting records. While the transactions are included in the City's accounting records, the disbursements are not approved by the City Council before issuance.

Recommendation – Chapter 384.20 of the Code of Iowa states in part "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose." For better accountability, financial and budgetary control, the financial activity of all City accounts should not only be included in the city's accounting records, but should be approved by the City Council before issuance of disbursements of the Ambulance Service.

- (N) Utility Billing – Utility billings, collections and delinquent accounts were not reconciled monthly and a delinquent account listing was not presented to the Council on a monthly basis.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. Also, a listing of delinquent accounts should be presented to the Council monthly for their review.

CITY OF BATTLE CREEK
DETAILED RECOMMENDATIONS
FOR THE PERIOD AUGUST 1, 2013 THROUGH JULY 31, 2014

(O) Computer System – The following weaknesses in the City’s computer system were noted:

The City does not have written policies and procedures for:

1. Password privacy and confidentiality.
2. Requiring password changes periodically.
3. Allowing only authorized personnel to request password resetting.
4. Not allowing another employee to request a reset of password for another employee and then having access to this password.

Recommendation – The City Should develop written policies and procedures addressing the above items to improve the City’s internal Control over the computer system.

(P) Business Transactions -- Business transactions between the City and city officials or Employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Craig Young, City Employee Owner of Young’s Auto Repair	Vehicle Repairs	\$ 30

In accordance with chapter 362.5(k) of the Code of Iowa, the above transaction does not appear to represent a conflict of interest since the total transaction was not more than the \$2,500 limit.

CITY OF BATTLE CREEK
BATTLE CREEK, IA 51006

NEWS RELEASE

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an agreed-upon procedures report on the City of Battle Creek, Iowa for the period August 1, 2013 through July 31, 2014. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Muxfeldt Associates, CPA, P.C. recommended the City establish segregation of duties over cash, cash receipts, disbursements, financial reporting, journal entries, accounting system, computer system, investing, and debt along with controls over the accounting of the Ambulance Service.

Muxfeldt Associates, CPA, P.C. recommends the City comply with Chapter, 372.13 (6).

Muxfeldt Associates, CPA, P.C. also recommends certified budget be amended, approval for disbursements before issuance of the claim, correction of out of balance funds, payroll related issues, approval of all transfers approval of journal entries, resolution naming official depositories, inclusion of separately maintained records in the City's records be approved, reconciliation of utility billings and develop written policies for the computer system.

A copy of the examination report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.